

REPORT TO	DATE OF MEETING
Governance Committee	28 th June 2011

Report template revised June 2008



SUBJECT	PORTFOLIO	AUTHOR	ITEM
Compliance with International Auditing Standards	N/A	G Barclay & C Ware	11

SUMMARY AND LINK TO CORPORATE PRIORITIES

The purpose of this report is to enable ‘those charged with governance’ and ‘management/section 151 officer’ to provide the assurances being sought by the Audit Commission as part of their audit of the Council’s 2010/11 accounts. The specific assurances being sought by the Audit Commission are set out in the two letters appended to this report.

The report links with all of the corporate priorities, in particular to be an ‘efficient, effective and exceptional Council’.

RECOMMENDATIONS

That, subject to consideration by the Committee, the Chairman of the Governance Committee and the Chief Executive (Section 151 statutory chief finance officer) be enabled to sign the assurance letters requested by the Audit Commission.

DETAILS AND REASONING

In March 2011 the Audit Commission wrote to the Chief Executive (Appendix1) and the Chair of the Governance Committee (Appendix 2) requesting information to assist with their audit of the Council’s 2010/11 financial statements. Given that the assurances requested would need to rely on very similar evidence to that being gathered to compile the Annual Governance Statement (AGS), and in the interests of transparency, it was agreed with the Audit Commission that responses to their letters would be provided following consideration at this meeting.

Similar requests for assurance were made in respect of the 2009/10 financial statements and therefore the information provided in this year’s responses is in effect an update of the information which was supplied last year.

Having reviewed the specific information being sought, Internal Audit is satisfied that the Council’s arrangements are such that positive assurances can be given in response to the Audit Commission. Principally, this conclusion is arrived at through the:

- comprehensive assurance and evidence gathered in compiling the AGS;
- ongoing work of the Committee and Internal Audit scrutinising and challenging the Council’s arrangements;
- work of the Chief Financial Officer and the financial arrangements and controls, including financial regulations, that have been adopted; and
- work of the Monitoring Officer supported by the Legal Services team.

Further detailed information to support Internal Audit’s review and conclusions can be found in the tables at Appendices 3 and 4.

WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

FINANCIAL	There are no direct financial implications arising directly from this report.		
LEGAL	The report demonstrates compliance with International Standards on Auditing (ISA (UK & I)).		
RISK	This report provides assurances that the Council has in place appropriate measures to mitigate the risk areas highlighted by the Audit Commission.		
OTHER (see below)			
<i>Asset Management</i>	<i>Corporate Plans and Policies</i>	<i>Crime and Disorder</i>	<i>Efficiency Savings/Value for Money</i>
<i>Equality, Diversity and Community Cohesion</i>	<i>Freedom of Information/ Data Protection</i>	<i>Health and Safety</i>	<i>Health Inequalities</i>
<i>Human Rights Act 1998</i>	<i>Implementing Electronic Government</i>	<i>Staffing, Training and Development</i>	<i>Sustainability</i>

BACKGROUND DOCUMENTS

Annual Governance Statement
 Service Assurance Statements
 Evidence collated by Internal Audit to support responses

30 March 2011

Mr Mike Nuttall
Chief Executive
South Ribble Borough Council
Civic Centre
West Paddock
Leyland
PR25 1DH

Dear Mike

Audit of South Ribble Borough Council Financial Statements - Compliance with International Auditing Standards

In order to comply with a number of International Standards on Auditing I am required to obtain an understanding of the following:

1) Management processes and outcomes in relation to:

- undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
- identifying and responding to risks of fraud in the organisation;
- communication to employees of views on business practice and ethical behavior, including how you encourage staff to report their concerns about fraud; and
- communication to those charged with governance the processes for identifying and responding to fraud.

In relation to the above, please provide your latest assessment of fraud risk within the organisation and how any specific risks identified are being addressed.

2) Whether management has identified any high risk posts from a fraud and corruption perspective and how such risks are identified, assessed and managed.

3) Whether management is aware of any related party relationships or transactions which could give rise to instances of fraud and how any such risks are mitigated.

4) Management's view on the adequacy and effectiveness of internal controls including segregation of duties. (Please provide details about any areas of internal control you consider to be a risk and what action is taken to mitigate those risks.)

5) Management's awareness of any actual or alleged instances of fraud during 2010/11, (Please provide details of any such instances or, if more appropriate, briefly refer to those you have already made us aware of via discussions with Internal Audit or briefings to the Audit Committees).

6) How management gain assurance that all relevant laws and regulations have been complied with. (Please provide a summary of instances of non-compliance which have been identified).

7) Whether there is any potential or actual litigation or claims that would affect the financial statements.

A brief response by email to the above issues and how they are addressed either by management or by yourself in your capacity as the Chief Executive and s151 officer will suffice. I made a similar request last year and you may find it helpful to simply update your response from last year but please note that I have asked some more detailed questions this year to ensure full coverage of the IAS requirements.

I am sending a similar letter to the Chair of the Audit Committee to understand how the Audit Committee exercises oversight over these issues and its awareness of any specific issues arising as a result of that oversight. If you wish to provide a joint response on behalf of both yourself and the Chair of the Audit Committee, (as in previous years), please do so.

Please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Gareth Winstanley
Audit Manager



30 March 2011

Cllr Graham O'Hare
Chair of the Governance Committee
South Ribble Borough Council
Civic Centre
West Paddock
Leyland
PR25 1DH

— Dear Councillor O'Hare

Audit of South Ribble Borough Council Financial Statements - Compliance with International Auditing Standards

This is our annual request for your assistance as Chair of the Governance Committee with our current work on the Council's accounts for 2010/11. In your role as Chair of the Governance Committee ("those charged with governance"), I am required to obtain your views on the following issues as part of our planning for the 2010/11 financial statements audit:

- 1) How those charged with governance exercise oversight of management's processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
 - identifying and responding to risks of fraud in the organisation;
 - communication to employees of views on business practice and ethical behavior; and
 - communication to those charged with governance the processes for identifying and responding to fraud.
- 2) How the Governance Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control.
- 3) Whether you have knowledge of any actual, suspected or alleged frauds.
- 4) How you gain assurance that all relevant laws and regulations have been complied with.

A brief response by letter or e-mail will suffice. Please feel free to contact me if you wish to discuss anything in relation to this request.

Audit Commission, 2nd Floor, Aspinall House, Aspinall Close, Middlebrook, Horwich,
Bolton, BL6 6QQ
T 0844 798 7300 F 0844 798 7301 www.audit-commission.gov.uk

28th June 2011

Gareth Winstanley
Audit Manager
Audit Commission
2nd Floor
Aspinall House
Aspinall Close
Middlebrook
Horwich
Bolton
BL6 6QQ

Dear Gareth

Audit of South Ribble Borough Council Financial Statements - Compliance with International Auditing Standards

With reference to your letter dated 30th March 2011 in respect of the above, I have now commissioned a review of the management processes that are in place within the Council which address the specific questions you raised.

These are contained in the attached table which was formally reported to and discussed by the Governance Committee on 28th June 2011. I trust that this provides you with the necessary assurances that the Council's arrangements are effective and that there are no specific concerns or issues to report.

Yours sincerely

Mike Nuttall
Chief Executive
South Ribble Borough Council
Civic Centre
West Paddock
Leyland
PR25 1DH

Issue	Management Assurances
Assessment of the risk that the financial statements may be materially mis-stated due to fraud	<ul style="list-style-type: none"> • Review of key financial systems on an annual basis.
Identifying & responding to risks of fraud within the organisation	<ul style="list-style-type: none"> • Undertaking the Annual Governance Review, including Service Assurance Statements. • Implementation of actions following the 'Fraud Management Review'. • We have undertaken four separate investigations into 'missing' cash'. However, we were unable to prove fraud. A report was provided to the relevant manager following each investigation which included management actions to strengthen controls.
Communication to employees of views on business practice & ethical behaviour including how you encourage staff to report their concerns about fraud	<ul style="list-style-type: none"> • Ongoing promotion of core values. • Adherence to Codes of Conduct. • Promoting participation in the on-line fraud awareness survey. • Compliance with corporate policies relating to Whistle-Blowing, Anti-Fraud & Corruption, Fraud Response & Anti-Money Laundering. • Internal Audit also publishes "Fraud Awareness" bulletins through the council's intranet. • Use of the "Meritec" Corporate Fraud Awareness application and the Housing Benefit and Counter Fraud application to raise awareness
Communication to the Governance Committee the process for identifying and responding to fraud	<ul style="list-style-type: none"> • Compliance with corporate policies relating to Whistle-Blowing, Anti-Fraud & Corruption, Fraud Response & Anti-Money Laundering.
Assessment of fraud risk within the organisation and how any specific risks identified are being addressed	<ul style="list-style-type: none"> • Undertaking the Annual Governance Review, including Service Assurance Statements. • Implementation of actions following the 'Fraud Management Review'

<p>Identification of any high risk posts from a fraud and corruption perspective and how such risks are identified, assessed and managed</p>	<ul style="list-style-type: none"> • Such posts include Directors, Heads of Service and Senior Finance Officers. Specific risks are assessed within the Corporate Fraud Risk Register. • Controls include: appointment vetting & references, CRB checks, Code of Conduct & other policies, authorisation & signatory controls, segregation of duties and member accountability / reporting. • All activities subject to Internal Audit risk assessment & review.
<p>Awareness of any related party relationships or transactions which could give rise to instances of fraud and how any such risks are mitigated</p>	<ul style="list-style-type: none"> • We are not aware of any such transactions; • Risk registers are in place for significant partnerships; • Partnership monitoring procedures are in place & reports presented to management and relevant Committees.
<p>View on the adequacy and effectiveness of internal controls including segregation of duties (including details of any areas of internal control considered to be a risk and the action taken to mitigate them)</p>	<ul style="list-style-type: none"> • The opinion of the head of internal audit in the 2010/11 Annual Internal Audit Report is that the Council continues to operate within a strong internal control environment. All audits were awarded the highest or medium control assurance ratings and none received the lowest control assurance rating. Improvement actions are contained within individual audit reports and are summarised in the Annual Report.
<p>Awareness of any actual or alleged frauds during 2011</p>	<ul style="list-style-type: none"> • Internal Audit has undertaken four separate investigations into 'missing' cash'. The investigations did not find any evidence of fraudulent activity. A report was provided to the relevant manager following each investigation which included management actions to strengthen controls.
<p>Assurance that all relevant laws and regulations have been complied with (include a summary of instances of non-compliance which have been identified).</p>	<ul style="list-style-type: none"> • Role of the Monitoring Officer & Team of qualified lawyers to advise officers. • All committee reports are cleared by Legal Services • The Annual Governance Statement (AGS) and Service Assurance Statements (SAS)
<p>Any potential or actual litigation or claims that would affect the financial statements</p>	<ul style="list-style-type: none"> • We are not aware of any potential for litigation or claims that would affect the financial statements.

28th June 2011

Gareth Winstanley
Audit Manager
Audit Commission
2nd Floor
Aspinall House
Aspinall Close
Middlebrook
Horwich
Bolton
BL6 6QQ

Dear Gareth

Audit of South Ribble Borough Council Financial Statements - Compliance with International Auditing Standards

Further to your letter dated 30th March 2011 in respect of the above, please find attached a table providing you with the necessary information that you seek in relation to the specific issues you raised to assist with planning for the 2010/11 financial statements audit:

The attachment was formally reported to and discussed by the Governance Committee on 28th June 2011 and I trust that this provides you with the necessary assurances that the Council's arrangements are effective and that there are no specific concerns or issues to report.

Yours sincerely

Councillor G O'Hare
Chair of the Governance Committee
South Ribble Borough Council
Civic Centre
West Paddock
Leyland
PR25 1DH

Issue	How the Governance Committee demonstrates that it secures the relevant assurances
<p>How the Governance Committee exercises oversight of management's processes in relation to:</p> <ul style="list-style-type: none"> • Undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud • Identifying & responding to risks of fraud within the organisation • Communication to employees of views on business practice & ethical behaviour • Communication to the Governance Committee the process for identifying and responding to fraud 	<ul style="list-style-type: none"> • Receipt of Annual Report including audit opinion from the Head of Shared Assurance • Review of key financial systems on an annual basis • Receipt of Annual Governance Statement • Results of detailed 'Fraud Management Review' reported to Governance Committee in 2010 and agreed actions recently followed up • Promotion of core values • Publicity of Codes of Conduct • On-line fraud awareness survey • Receipt of new and revised corporate policies relating to Whistle-Blowing, Anti-Fraud & Corruption, Fraud Response & Anti-Money Laundering. • National Fraud Initiative (NFI)
<p>How the Governance Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control</p>	<ul style="list-style-type: none"> • Receipt of new and revised corporate policies relating to governance, e.g. Whistle-Blowing, Anti-Fraud & Corruption Strategy, Fraud Response Plan and Anti-Money Laundering.
<p>Whether you have knowledge of any actual, suspected or alleged frauds</p>	<ul style="list-style-type: none"> • Internal Audit reports to the Governance Committee quarterly • NFI results • Publicity of successful prosecutions by BEU
<p>How you gain assurance that all relevant laws and regulations have been complied with</p>	<ul style="list-style-type: none"> • Role of the Monitoring Officer • Team of qualified lawyers to advise officers • All committee reports cleared by Legal • The Annual Governance Statement (AGS) and Service Assurance Statements (SAS) • Internal Audit reports to Governance Committee quarterly. • Key areas of Internal Audit reviews include compliance with statutory requirements and relevant laws